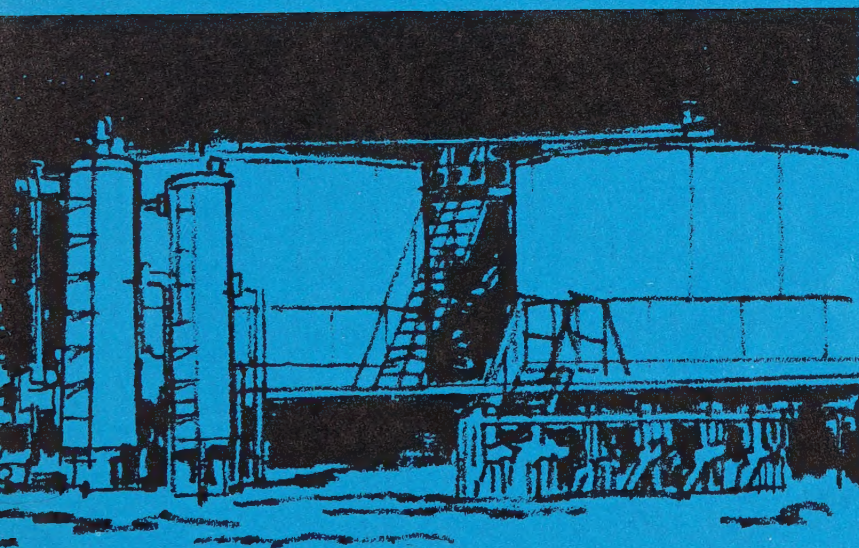


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PRAIRIE
OIL
ROYALTIES
COMPANY, LTD.

ANNUAL
REPORT
1964





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PRAIRIE OIL ROYALTIES COMPANY, LTD.

To the Shareholder:

The Directors of Prairie Oil Royalties Company, Ltd. take pleasure in submitting the following report on the activities of the Company for the fiscal year ended June 30, 1964. Included with this report are the year-end financial statements and the report of the Company's auditors thereon.

production

The progress made by the Company during the year under review has been very satisfactory as record production levels were established. Net crude-oil production averaged 606 BOPD, which represents an increase of approximately 10% over that of the preceding year. Development drilling on wholly-owned Company lands in Southeastern Saskatchewan completed close to year-end has made a significant addition to net oil production which is not reflected in the above-noted increase. Currently the Company is producing approximately 800 BOPD and therefore a significant increase in the daily average production is forecast for the present year.

In December, 1963 gas sales commenced from the Acadia area of Southeastern Alberta where the Company holds interests in five gas wells equivalent to ownership of 3.56 net gas wells. Average net gas sales calculated on an annual basis amounted to 1,160,000 cubic feet per day. It is expected that the current year's average net production, having regard to the minimum take-or-pay provisions of the gas contracts covering the properties, will be in the order of 2,750,000 cubic feet per day from this area.

financial

The Company's gross income aggregated \$574,476 representing an increase of 31% over the comparable figure of the previous year. Accounting principally for the higher figure were improved royalty receipts and commencement of gas sales at Acadia. Reflecting the increase in administrative costs related to the expanded exploratory program and the additional expenses associated with the Acadia gas operations, general expenses increased from \$125,113 to \$214,633. Operating profit, that amount available for reinvestment in oil and gas projects, increased by 15% to \$359,843, while net profit showed a reduction from \$182,402 reported one year ago to \$8,757 during the year under review. The decline in net profit can be attributed to the greater amount of exploratory drilling undertaken by the Company and the write-off at year's end of \$85,793 in respect to the Northwest Territories Project. It is Company policy to consider as an immediate expense all unsuccessful drilling costs and other intangible exploratory costs such as seismic and structural test hole programs, which together amounted to \$217,873 during the year. The Northwest Territories Project write-off was occasioned by the surrender of the Company's interest therein.

exploration and development

During the year the Company disposed of its shareholdings in three natural gas utilities at a modest profit. The funds derived from the sale of these investments were then placed in short-term securities and were later used in part to finance development drilling projects described in this report. At the year-end the Company had a satisfactory treasury position with a working capital of \$542,882.

The Company continued to expand its exploratory activities and during the year under review held interests in nine exploratory tests drilled in Western Canada. Substantial additions in the Company's landholdings were made through outright purchase of exploratory acreage and drilling on other companies' acreage pursuant to farmout agreements. One discovery was recorded in the Trochu area of Central Alberta in which the Company holds an 8 1/3% interest. The discovery well, B. A. Trochu 2-7-33-22, was completed as a Cretaceous gas discovery which produced gas at rates up to 3,000,000 cubic feet per day on initial production tests. The Company holds an 8 1/3% interest in 2,080 acres of land in the area of this discovery well, which is now shut in awaiting a market outlet, and a 33 1/3% interest in 320 acres offsetting its spacing unit.

Two partial-interest wells were drilling at the year-end in the Big Bend Area of North-central Alberta where the Company holds a 33 1/3% interest in approximately 105,000 acres of Crown P. & N. G. reservations and leases. Both wells, which were being drilled to test for a possible extension of the Gilwood oil play from the Hondo area discoveries located about fifteen miles to the northwest, were subsequently abandoned. Planning of additional exploratory activity on the properties is being deferred pending results of drilling by others in the general area.

Three additional tests were drilled subsequent to the year's end, one of which resulted in a Glauconitic sand gas discovery in the Drumheller area of Central Alberta. The discovery well, Drum 7-7-30-19, in which the Company holds a 33 1/3% interest, produced gas at the rate of 5,800,000 cubic feet per day on initial production test. Immediate follow-up drilling to this promising gas strike will be undertaken and the results thereof reported to the Shareholders at a later date.

One of the two remaining wells, which were abandoned, was located in the Province of Manitoba and represented the Company's initial exploratory drilling activity in that Province. In addition a 33 1/3% interest in about 20,000 acres of leases was recently acquired in Manitoba on which a six-well exploratory program will be started in late 1964. In view of the recent unfavorable proration decision in the Province of Alberta, as it affected the independent oil industry, the Company's future policy will be to spend an increasing proportion of its exploration funds in the Provinces of Manitoba and Saskatchewan.

Development activity of the Company for the year under review involved the drilling of four wholly-owned wells in the Northgate and Nottingham oil fields of Southeastern Saskatchewan and the participation as to a 25% interest in a fifth well drilled in the West Routledge field

Royalties

of Southwestern Manitoba. Three of the four wholly-owned wells and the partial-interest well were successful oil completions. In addition two wholly-owned wells were completed in the Northgate field after year-end. The Company land interest in the general Northgate area, where additional exploratory and development activity is expected to take place in the current year, is illustrated in a map contained elsewhere in this report. It is also anticipated that further development drilling will be undertaken in the West Routledge field in Manitoba.

Reflecting the increased tempo of activity on the part of the oil industry in Saskatchewan, the number of oil wells drilled on royalty-interest lands increased for the second successive year. A total of seventy completions was recorded during the year under review compared to the 51 wells completed in the preceding year bringing the number of wells in which the Company has an interest to about 1400. It is of interest to note that sixty per cent of the royalty-interest wells drilled were located in the Swift Current area of Southwestern Saskatchewan. In the previous year the major portion of such drilling activity took place in the Midale-Benson areas of Southeastern Saskatchewan.

land

During the year under review the Company continued to increase its land interests and at the year-end held varying interests in lease, mineral or permit lands aggregating 1,893,856 acres equivalent in ownership to 362,609 net acres. In addition royalty interests between 1 1/4% and 12 1/2% were held in a total of 523,506 acres. A summary of land interests by provinces is presented in a table included with this report. Not included in this table are the leasehold interests aggregating 20,000 acres located in Southwestern Manitoba in which the Company was acquiring a one-third interest at year-end.

British Columbia Oil Lands Ltd.

In view of the Company's substantial share interest in British Columbia Oil Lands Ltd. (333,522 shares representing 35.2% of the outstanding share capital) the following brief report of the activities relating to that Company is presented for the benefit of Prairie shareholders.

The March 31, 1964 landholdings of British Columbia Oil Lands Ltd. in the Fort Nelson area of British Columbia are set forth in the table below and are illustrated in a map contained elsewhere in this report.

Acreage (acres)	Type	Interest	Operator
242,637	Lease	25% net profits	Pacific Petroleum Ltd.
268,833	Lease	12½% carried	Pan American Petroleum Corporation
235,877	Lease	12½% carried	British American Oil Company Limited - Pan American Petroleum Corporation
45,143	Lease	25% carried	
212,956*	Lease	12½% carried	Imperial Oil Limited - Pan American Petroleum Corporation
30,406	Permit	15% working	Pan American Petroleum Corporation

*Leases totalling 110,314 acres were surrendered April 25, 1964

Arctic Islands

According to the British Columbia Oil Lands Ltd's. 1964 annual report eleven gas wells have now been completed on its carried-interest or net profits' landholdings in the Fort Nelson area. Drilling activity in this area is being maintained at levels comparable to that of previous years and results thereof continue to be encouraging as reserves of major significance are being developed.

The gas-marketing prospects for the Fort Nelson area have been improved considerably by the commencement of construction of pipeline facilities by Westcoast Transmission Company Limited to serve that area. Westcoast recently obtained approval from the National Energy Board of its Fort Nelson project which involves the construction of 220 miles of 30-inch main transmission line, gas processing facilities at Fort Nelson and related gas gathering systems, all at an estimated cost of \$58,000,000. Initial deliveries to the system are slated to commence from the Clarke Lake Field in late 1964.

According to the projections made by Westcoast in its submissions to the National Energy Board, initial gas sales from the Yoyo field, where British Columbia Oil Lands holds substantial net profits' interests, are expected to take place in 1967. Drilling in the Yoyo area during the past two years has confirmed the existence of a major gas field with gas having been discovered in commercial quantities in three horizons; the Slave Point, Sulphur Point and Elk Point formations. There are now five gas wells in this field, four of which were completed in the Elk Point and the fifth in the Slave Point. Pay thicknesses ranging upwards of 200 feet have been encountered in wells drilled in this area to date. Three of the five aforementioned wells are situated on British Columbia Oil Lands acreage while the remaining two are immediate offsets.

The Company, through its 14% interest in the Pan Arctic Syndicate, participated in the drilling of the Dominion Explorers Canso et al. Bathurst Caledonian River J-34 exploratory test, which was drilled to a depth of 10,000 feet and abandoned in March, 1964. The Syndicate held a 6 1/4% interest in this well which yielded valuable information for future use in the continuing search for oil in the Arctic Archipelago.

During the past three years the Pan Arctic Syndicate conducted extensive surface geological studies on the 4,672,000 acres of permits initially acquired in the Arctic. Based on information obtained from such studies the Syndicate's landholdings were reduced to those areas considered favorable for the accumulation of hydrocarbons. Permits aggregating about 1,550,000 acres were renewed for a second three-year term, the work requirements therefor having been met through the participation in the aforementioned Bathurst Island well.

staff

The Directors on behalf of the Company, wish to express their sincere appreciation for the valuable effort put forth on its behalf by the Company's employees during the past year and look forward to a continuation of the excellent employee relations which exist within the Company.

On behalf of the Board,
JOHN B. AIRD, Q.C.,
Chairman of the Board

GLENN S. BRANT, P.Eng.,
President and General Manager

Land Holdings as at June 30, 1964

I. WORKING AND MINERAL INTERESTS

Province or Territory	Area	Type Interest	Gross Acres	Net Acres
MANITOBA	Southwestern	Mineral	40,375	12,423
	" "	Lease	452	276
			40,827	12,699
SASKATCHEWAN	Estevan-Midale	Mineral	17,480	10,086
	" "	Lease	11,169	8,146
	Swift Current	Mineral	7,588	3,794
	" "	Lease	2,553	1,968
	Other Areas	Mineral	18,379	10,024
	" "	Lease	443	443
			57,612	34,461
ALBERTA	Acadia-Empress-Oyen	Lease	58,720	28,420
	" " "	Permit	8,800	6,600
	Acme-Rumsey	Lease	10,679	3,900
	Big Bend	Lease	9,599	3,200
	" "	Reservation	95,707	31,902
	Cherhill-Wabamun	Lease	5,746	5,106
	Eglesham-Forestview	Lease	20,005	11,925
	Kaybob-Swan Hills			
	-Virginia Hills	Lease	5,286	2,259
	Red Deer-Rocky Mtn. House	Lease	3,600	920
	Other Areas	Lease	14,438	2,420
			232,580	96,652
ARCTIC ISLANDS		Permit	1,562,837	218,797
TOTAL WORKING AND MINERAL INTERESTS			1,893,856	362,609

II. ROYALTY INTERESTS

Province or Territory	Area	Type Royalty	
MANITOBA	Southwestern	6 1/4 % gross	1,747
	" "	3 1/8 % gross	86,329
			88,076
SASKATCHEWAN	Estevan-Midale	12 1/2 % gross	480
	" "	11 1/4 % gross	166
	" "	11 % gross	480
	" "	6 1/4 % gross	4,081
	" "	3 3/4 % gross	480
	" "	3 1/8 % gross	320
	" "	2 % gross	160
	" "	7 1/2 % gross override	399
	" "	5 % gross override	13,435
	" "	2 1/2 % gross override	222,531
	Swift Current	6 1/4 % gross	802
	" "	1 1/4 % gross override	167,611
	Other Areas	6 1/4 % gross	3,904
			414,849
ALBERTA	Rumsey	2 1/12 % gross override	2,560
NORTHWEST TERRITORIES	Fort Liard	2 1/2 % gross override	18,021
TOTAL ROYALTY INTERESTS		from 1 1/4 % to 12 1/2 % in	523,506

PRAIRIE OIL COMPANY

Balance Sheet

ASSETS

CURRENT ASSETS	1964	1963
Cash	\$ 20,064	\$ —
Short term investments, at cost which approximates market	600,347	350,000
Accounts receivable	145,526	47,459
Inventory of material and supplies	16,574	1,665
Income tax refundable	—	1,817
	<u>782,511</u>	<u>400,941</u>
INVESTMENT IN SHARES, at cost		
British Columbia Oil Lands Ltd. (333,522 shares)	2,009,117	2,009,117
Other companies	—	459,245
	<u>2,009,117</u>	<u>2,468,362</u>
CAPITAL ASSETS, at cost		
Producing properties, less accumulated depletion	319,958	110,593
Capped gas wells	—	87,386
Non-producing properties	720,535	790,668
Wells in progress	87,755	—
Production equipment, less accumulated depreciation	172,248	41,859
Other equipment, less accumulated depreciation	8,357	5,464
	<u>1,308,853</u>	<u>1,035,970</u>
	<u><u>\$4,100,481</u></u>	<u><u>\$3,905,273</u></u>

The accompanying notes are

ROYALTIES

, LTD.

June 30, 1964

LIABILITIES

CURRENT LIABILITIES

	<u>1964</u>	<u>1963</u>
Bank overdraft	\$ —	\$ 8,770
Accounts payable	239,629	47,095
	<u>239,629</u>	<u>55,865</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized - 2,500,000 shares of \$1.00 each

Outstanding - 1,876,520 shares	1,876,520	1,876,520
CONTRIBUTED SURPLUS	420,480	420,480
RETAINED EARNINGS	1,563,852	1,552,408

Signed on behalf of the Board

Director, John B. Aird, Q.C.

Director, Glenn S. Brant

\$4,100,481

\$3,905,273

of the financial statements.

Statement of Income and Retained Earnings

For the year ended June 30, 1964

REVENUE	1964	1963
Production		
Royalty income	\$ 438,299	\$ 388,244
Crude oil and gas sales	95,134	24,239
	<u>533,433</u>	<u>412,483</u>
Other		
Interest (net)	20,003	13,427
Sundry	14,871	1,590
Dividends	6,169	10,200
	<u>41,043</u>	<u>25,217</u>
Total revenue	<u>574,476</u>	<u>437,700</u>
EXPENSES		
Production and administration		
Salaries and employee benefits - net	67,891	49,346
Lease rental and mineral taxes	40,997	27,750
Legal fees and expenses	18,442	13,547
Production expenses	17,291	6,243
Office rent, utilities and business tax	14,179	—
Land and geological expenses	13,064	9,032
Miscellaneous	9,840	1,476
Travel and automotive	9,292	3,005
Trust company fees and expense	6,425	8,396
Directors' fees and expenses	4,822	1,050
Telephone and telegraph	4,131	967
Office expense	3,839	2,741
Insurance	2,270	—
Audit fees	2,150	1,560
	<u>214,633</u>	<u>125,113</u>
Income before the following items	359,843	312,587
Other		
Dry holes and related exploration costs	217,873	90,617
Deferred development costs surrendered	85,793	—
Unproductive properties surrendered	5,201	5,053
Depletion	32,473	32,683
Depreciation	9,746	1,832
	<u>351,086</u>	<u>130,185</u>
NET INCOME FOR THE YEAR	8,757	182,402
Retained earnings at beginning of year	1,552,408	1,375,312
Add (deduct)		
Adjustments relating to sale of royalty and property interests to Freeholders Oil Company Limited in 1961	—	2,377
Adjustments in respect of previous years' income tax	2,687	(7,683)
Retained earnings at end of year	<u>\$1,563,852</u>	<u>\$1,552,408</u>

Explanatory Notes To Financial Statements

June 30, 1964

1. ACCOUNTING POLICY

Acquisition and exploration costs of properties are capitalized as incurred. Costs of producing properties are depleted on the unit of production method based upon estimated recoverable reserves as determined by the Company's engineers. Dry hole costs are written off when the well is abandoned. Acquisition costs are written off as the Company's properties are determined to be unproductive.

2. INCOME TAX

Although the company has a net income for the year, the deductions allowed under the Income Tax Act for depletion and for drilling and exploration expenses which have been capitalized have resulted in a loss for the year for income tax purposes.

3. INVESTMENTS

The investment in British Columbia Oil Lands Ltd. consists of 333,522 shares, representing approximately 35% of the outstanding common stock.

4. CAPITAL STOCK

During the year, stock options for an additional 10,000 shares at a price of \$2.81 per share were granted to two new executive personnel. Options outstanding at June 30, 1964 to key executive personnel total 85,000 shares at a price of \$2.81 per share.

5. COMMITMENTS

At June 30, 1964 the unexpired portion of employment contracts with key employees totalled \$145,200 and the unexpired commitment on the Company's lease on its office space amounted to \$52,800.

6. SUBSEQUENT TRANSACTIONS

At June 30, 1964 two of the Company's wells were being drilled, and the accumulated expenditures on these two wells at that date totalled \$62,955. Subsequent to June 30, 1964 these two wells were abandoned and the related costs have since been written off.

7. SALARIES AND EMPLOYEE BENEFITS - NET

Up until June 30, 1963 the day-to-day management and administration of the company was conducted for it by Devon-Palmer Oils Ltd. under the terms of a management contract. Since the company planned to continue with an active exploratory program, key personnel, formerly with Devon-Palmer Oils Ltd., were engaged by the company commencing July 1, 1963. For the year ended June 30, 1963 the management fee paid to Devon-Palmer Oils Ltd. was \$49,346. With the new staff, the company was able to provide management service work for other companies. Because the service work provided was primarily a recovery of employees' time, the fees received of \$38,200 have been netted against salaries and employees' benefits.

Auditors' Report to the Shareholders

PRAIRIE OIL ROYALTIES COMPANY, LTD.

Calgary, Alberta

We have examined the balance sheet of Prairie Oil Royalties Company, Ltd. as at June 30, 1964 and the related statement of income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and related statement of income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at June 30, 1964 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with Section 154 of the Saskatchewan Companies Act, we report that, in our opinion, all the transactions of the company that have come to our notice have been within the objects and powers of the company.

TOUCHE, ROSS, BAILEY & SMART

Chartered Accountants.

Calgary, Alberta

September 18, 1964

ANNUAL REPORT

For the Fiscal Year ended June 30, 1964

BOARD OF DIRECTORS:

*JOHN B. AIRD, Q.C., *Toronto, Ontario*
*G. S. BRANT, *Calgary, Alberta*
JACK COLES, *New York, New York*
M. H. FINNELL, *Calgary, Alberta*
BENJAMIN HEFFNER, *New York, New York*
*JOSEPH H. HIRSHHORN, *Toronto, Ontario*
*WINFIELD H. PERDUN, *New York, New York*
R. R. RUSMISEL, *New York, New York*
C. W. TEMPLETON, *Calgary, Alberta*
D. M. TYERMAN, Q.C., *Regina, Saskatchewan*
J. D. WHITE, *Calgary, Alberta*

OFFICERS:

JOHN B. AIRD, Q.C., *Chairman of the Board of Directors*
G. S. BRANT, *President and General Manager*
J. D. WHITE, *Vice-President*
C. W. TEMPLETON, *Vice-President*
D. M. TYERMAN, Q.C., *Secretary*
C. J. JAMES, *Treasurer*

HEAD OFFICE:

2236 Albert Street, *Regina, Saskatchewan*

OPERATIONS OFFICE:

202, 805 - 8th Avenue S.W., *Calgary, Alberta*

COUNSEL:

MacPHERSON, LESLIE & TYERMAN, *Regina, Saskatchewan*
SIMPSON THACHER & BARTLETT, *New York, New York*

AUDITORS:

TOUCHE, ROSS, BAILEY & SMART, *Calgary, Alberta*

TRANSFER AGENT & REGISTRAR:

CANADA PERMANENT TRUST COMPANY, *Regina, Saskatchewan*

CO-TRANSFER AGENT & REGISTRAR:

THE ROYAL TRUST COMPANY, *Toronto, Ontario*

CO-TRANSFER AGENT:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, *New York, New York*

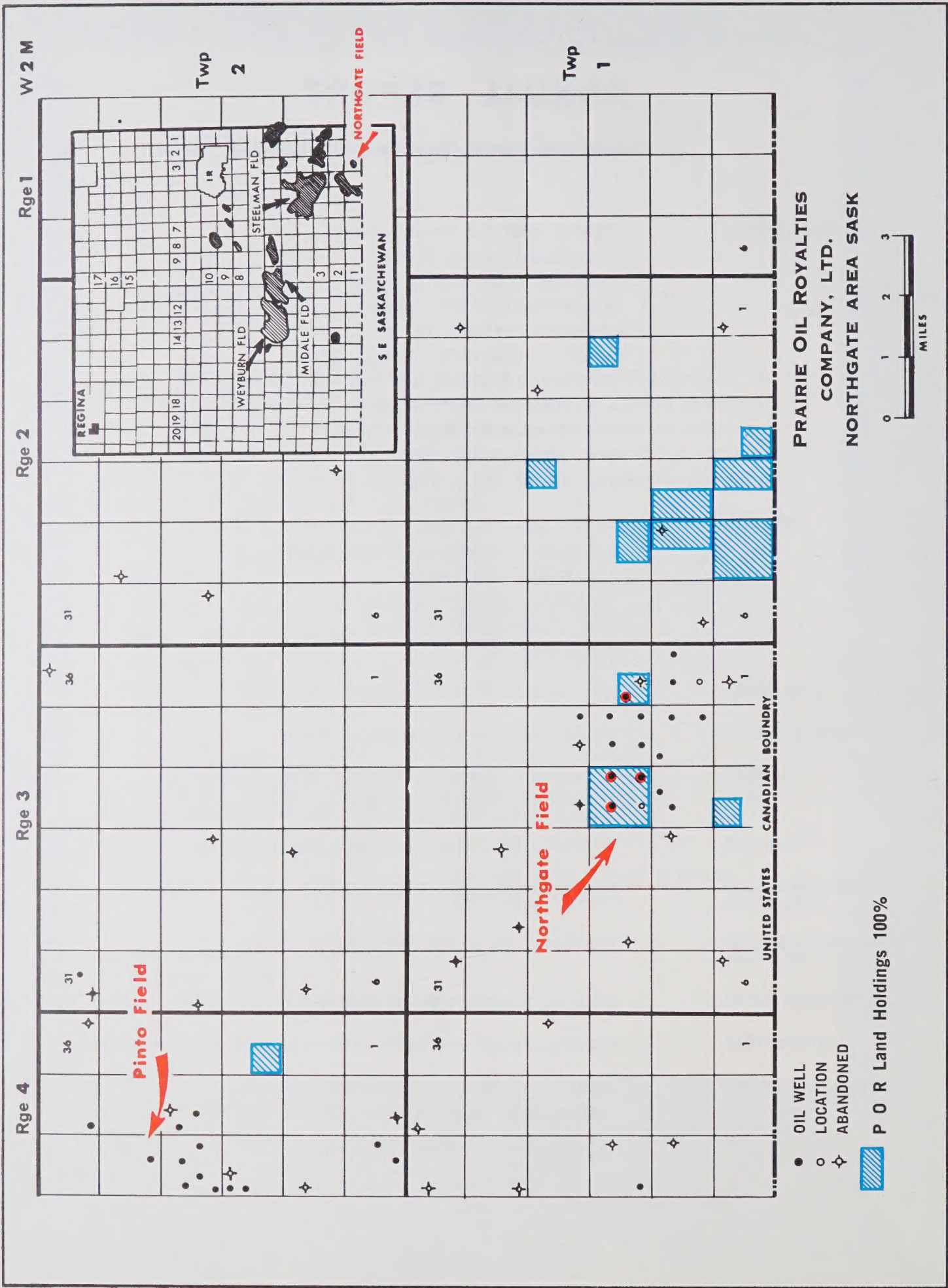
CO-REGISTRAR:

CHEMICAL BANK NEW YORK TRUST COMPANY, *New York, New York*

STOCK EXCHANGE LISTINGS:

TORONTO STOCK EXCHANGE, *Toronto, Ontario*
AMERICAN STOCK EXCHANGE, *New York, New York*

Denotes member of Executive Committee



PRAIRIE OIL ROYALTIES
COMPANY, LTD.
NORTHGATE AREA SASK

● OIL WELL
○ LOCATION
◇ ABANDONED
■ P O R Land Holdings 100%

ALBERTA

NORTHWEST TERRITORIES

BEAVER RV.

PETITOT RV. AREA

P. 1159

KOMIE

KOTCHO LK. AREA

YOYO AREA

CLARKE LK. AREA

FT NELSON

PROCESS PLANT

ALASKA

GAS PIPELINE UNDER CONSTRUCTION

PROPOSED FUTURE CONSTRUCTION

